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# ANALYSIS OF THE 1951 BUDGET OF THE CZECHOSLOVAK STATE

The state budget for the current year was presented to the parliament in February 1951. After a very brief discussion, the budget was passed in March 1951.

The Minister of Finance states that this will become the normal operating procedure. In the Czechoslovak economic plan the state budget is the keystone. However, the compilation of the economic plan is a long and tedious task, which normally cannot be completed until almost the end of the year. For this reason the work on the final budget can be begun only in January.

The state economic plan is very complicated. It is conceived as an integration of many individual plans which are arranged hierarchically. This integration of the different plans proceeds simultaneously on two independent and parallel routes.

First, there is the economic plan of activities which is at the top of the pyramid. The base is formed by the plans of the individual enterprises, and naturally the plans of the enterprises also resemble smaller pyramids. These small pyramids are formed by the integration of the shop and factory plans of the enterprises.

The integration of the plans of the individual enterprises is on industry level; for example, the plan of the machine-building, glass, and textile industries, or that of highway transport, etc. These industry plans are then integrated later with the plans of that entire industry, for distribution, for transport, etc. The economic plan of all these activities forms the complete arch of which the budget is the keystone.

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To get the idea of the other method used to establish the state economic plan, it is first necessary to understand clearly that each economic plan of an industrial enterprise is broken down into a series of operational plans: plan for supplying raw materials, plan of maintaining stocks of raw materials, plan of developing manufacturing operations, manufacturing plan, plan of stocks of manufactured goods, plan of flow of products, manpower plan, financial plan, investment plan, maintenance plan, etc.

It is prescribed that the operational plans be divided into plans for set periods of time, with no period greater than one month. Some enterprises, like the former "Bata," establish this operational plans on a weekly basis.

For certain operations which are important to the entire economy of the nation over-all plans are established for some special activities. These plans are integrated in the formation of the state economic plan. On the basis of the operational plans, the state has established plans for the production and distribution of coal, steel, fuel, and nonferrous metals, the state investment plan, the state financial plan, the wage plan, labor plan, etc.

The state economic plan is organized on four levels: (1) the state economic plan established by the State Planning Office; (2) plans of the economic sectors established by the various ministries; (3) the industry plans established by the central directorate of the respective sectors; and (4) the economic plans of the individual enterprises. This organization was simplified in September 1951 by a governmental decree which abolished the third level. All the central directorates were dissolved, and the Ministry of Heavy Industry was subdivided into new ministries to which the individual enterprises will be attached directly from now on. Part of the personnel of the central directorates will be taken into the new ministries; however, Doctor Dolansky, Chairman of the State Planning Office, stated that 39 percent will be sent to the factories as manual workers.

The basic idea of the present Communist government in Czechoslovakia in establishing the budget is to enter in the state budget all the economic activities of Czechoslovakia, provided that they are expressed only in money. So, in the future, there will be only one budget, encompassing all activities, expressed in Czechoslovak crowns, and a single state plan, representing these same activities in non-monetary terms.

The concept of one budget and one economic plan, based on the example of the USSR, is the goal of the Czechoslovak government, but this goal will probably not be reached for some time. Nevertheless, even today, there are two sectors where the budget and the state plan touch and where the budget is established in accordance with the state plan. These two sectors are investments and financing. One part of the investments is contributed directly by the state, the other part by the enterprises; so, there must be coordination in the investments plan. In the field of financing, the state has become the exclusive financier of the economy because private banking has almost disappeared.

We shall present a brief summary of the trends which appear in the approved 1951 budget and compare it with the 1949 and 1950 budget. It is necessary to give some general characteristics on the present structure of the Czechoslovak budget, which is in a state of transition toward the Soviet budget system. The whole Czechoslovak economy appears as a single budget.

The state budget has four parts: (1) the state budget proper; (2) servicing the national debt; (3) social security, and, (4) financing the national economy.

As a result of the second banking reform in 1950, there are only two banks in operation: the State Bank and the Investment Bank. The first performs the functions of a normal bank, organizes and grants short- and medium-term credit to the national economy, and is the controlling organ of the plan for financing

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the economy. (This control is called "control by the crown," corresponding to the Soviet control called "control by the ruble.") In the fiscal organization the State Bank is the Treasury and effects all payments by the state. For this reason, the Treasury, which was listed in the budgets for 1949 and 1950, does not appear in the 1951 budget.

On the other hand, the Investment Bank is the organ for granting long-term credit. This bank receives regular deposits made up of the amortization on the balance sheets of the national enterprises and also from their profits. It also receives from the funds for financing the national economy the allocations which the state makes to the fund of the national economy.

Between 1949 and 1951, the credits granted to private enterprises fell from 4.5 percent to 2 percent of the total credits granted; all credit transactions were controlled by the state. With the exception of wages all payments within the state are to be made by bank clerks.

Another characteristic of the planned economy in Czechoslovakia is that the amount of working capital available to the enterprises is being constantly decreased. It is prohibited to create reserves other than those legally prescribed. As has already been said, the enterprises are forced to deposit every month in the Investment Bank their amortization quotas. The taxes must also be paid to the state each month. The profits of the national enterprises, after the deduction of the legal withholdings, have to be paid to the Fund of the National Economy.

The enterprises may not request credit in excess of what has been provided and approved in the plans of the enterprises. It is interesting, in this connection, to point out that in March 1951 the government authorized more severe measures for liquidating credits in order to pay wages. Until the end of 1951, the amounts reserved for wages in the plans of the enterprises were "frozen." This new measure means that the State Bank must check the sums paid out as wages by the enterprises and limit the credits to be used for this purpose to the amounts established in the plans.

The control of the application of the financial plans in the entire Czechoslovak economy rests with the State Bank. The control of long-term credits is the duty of the Investment Bank. The "control by the crown" is made possible by the interdiction of cash payments, and thus almost all payments must pass through the State Bank and the Investment Bank in the form of checks on the respective accounts.

These examples of the close interdependence between the fiscal system and the financial organization or the national budget show how difficult it is to analyze the actual uses to which the various appropriations in the budget are put. For political reasons, the actual national defense budget has been increased annually by only one billion crowns for the past 3 years. In contrast to this, the budgets of the Ministry of the Interior and the Ministry of National Security have almost tripled during the same period. Large sums have been allocated annually to the Fund for National Industry. According to published official figures, the allocations were 35 billion crowns in 1949 and 44 billion crowns in the preliminary budget for 1951. The government has announced that these sums are used to increase the production potential of heavy industry.

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[redacted] the Ministry of Social Welfare and Labor and the Ministry of Health have listed the expenses for building and equipping 11 military hospitals. According to the source, these hospitals were to have been kept in reserve until needed but the contracts had already been awarded. It is certain that most of the items in the budget are used to cover the costs of rearing, of services of a political nature, or of the needs of the Communist Party. The Party organizes public demonstrations, propaganda, training of political cadres, etc.

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Thus, one must say that the state economic plan of Czechoslovakia, controlled by an interdependent "fiscal finance" system, and based on systematic propaganda and surveillance by the police system of the Ministry of National Security, is an instrument in the hands of the leaders of the Communist Party which they use to pursue their interests without being constrained by public opinion. But it should be pointed out that complete suppression of free discussion on the details of Communist policies, and the direct control of public opinion, bring about in the people a slow but profound accumulation of feelings of discontent and revolt. In the present world political situation this is a factor of the greatest importance, and one which is worth noting, since at any given moment it may become decisive for the West. It is also probably the factor which would make possible the solution of the present political difficulties while avoiding a world war.

That these observations are correct was proved by the Communist leaders themselves in September 1951, when they were obliged to change the structure of the government and to form a special Ministry of State Control. It appears that the administrative structure of the state plan, which is already very complex itself, is henceforth to be duplicated, from top to bottom, by an autonomous control organization having quasi-dictatorial powers. The effective control of the new ministry will apparently be based primarily on the over-all operational plans for production and distribution of basic raw materials and on the plans for heavy industry. This control has until now been in the hands of the administrators of the plan. Another control, and a very strict one, was carried out by the Ministry of National Security; the agents of this control are in the organs of local administration and, in the form of factory police, in individual establishments. Apparently all these organs are from now on to be under the new Ministry of State Control.

These latest decisions show that propaganda, police control, and plan organization have proved insufficient. The discipline of the mass of workers, their productivity and the loyalty of the employees and the managers of the national enterprises, are beginning to deteriorate.

To avoid this, the Communist leaders feel obliged to centralize more thoroughly and to organize a stricter control of the economy. At the same time they are trying to rid themselves of elements in whom they no longer have confidence by transferring functionaries and white-collar workers to the factories.

This transfer of intellectuals to the factories, however, should be considered rather as a sign of the weakness of the regime. Among those shifted are many malcontents and critics of the regime. Further, this program is beginning to affect even Communist Party members. But these elements will merely increase the discontent among the factory workers.

We have attempted to show the environment in which the Communist experiment is developing in Czechoslovakia, a very highly industrialized country and one with a long democratic tradition. We have also tried to analyze more closely the difficulties with which this experiment is faced. Now we shall examine the fiscal evolution in Czechoslovakia during the last 3 years, i.e., during the first 3 years of the present Communist regime.

The following table shows the principal categories of the state budget for the years 1949 through 1951, in millions of crowns.

	Revenues			Expenditures		
	1949	1950	1951	1949	1950	1951
President of the Republic	72.2	82.9	69.4	11	14.9	0.6
National Assembly	85.3	80	83.3	0.6	0.4	1.2

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	<u>Revenues</u>			<u>Expenditures</u>		
	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
Slovak National Council	40.6	32.3	40.6	0.2	--	--
Presidium of Council [?]	315.9	80.2	101.9	14.0	--	--
Presidium of Slovak Council /Slovak Board of Commissioners?/	162.7	31.3	28.5	0.1	--	--
Central Planning Office	--	855.0	1,112.5	--	20.8	12.0
Ministries						
Foreign Affairs	409.0	506.0	651.3	5.8	15.0	12.5
National Defense	8,359	9,565	10,506	253	292	103
Interior	6,758	10,668	11,614.9	411	549	104.5
National Security	--	--	5,064	--	--	--
Justice	1,294	1,616	2,041	296	447	510
Unification of Laws	12.8	11.4	--	--	--	--
Education	8,568	10,266	12,183	104	228	110
Information	536	797	1,905	9	7	149
Agriculture	2,214	4,757	4,823.4	318	625	918
Food	382	578	638.2	2	43	69.5
Heavy Industry	730	1,641	2,692	73	64	579
Light Industry	--	--	717	--	--	22
Internal Trade	164.6	306	473	7	3	2.8
Foreign Trade	142	140	173	255	13	12.6
Technology	7,578	18,531	13,437.5	129	294	135
Transportation	915	871	831.6	65	15	20
Posts	46.9	31	24.3	--	--	--
Social Welfare, Labor	8,183	14,263	18,730	212	267	424.8
Health	5,635	6,625	8,310	3,460	1,528	210.8
Finance	2,367	2,207	566.5	75,465	114,413	160,465.4
Supreme Court	15.2	15.7	15.9	--	--	--
Physical Culture	--	369	539.4	--	5	3.4
Pensions	2,957	6,732	1,190	21	42	--
Office of Control	43	43	42	--	--	--
Office of Religious Affairs	--	1,142	1,905	--	--	6
General funds	31,292	12,271	--	8,217	486	--
Total	89,278	115,113	114,451	89,320	119,432	166,520

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The over-all 1951 budget is broken down as follows:

	<u>Millions of Crowns</u>
Receipts	166,520
Budgetary expenses	114,451
Servicing national debts	4,707
Deficit from social security	3,609
Deposits in the Fund of the Nationalized Economy	43,400
Total expenses	166,267
Budget surplus	253

This table requires some explanation.

1. The Central Planning Office was made autonomous in 1950. It consists of the General Secretariat of the Economic Council, the Planning Office, the Supreme Price Office, and the State Statistical Office.

2. The Ministry of Industry was divided in 1950 into the Ministry of Light Industry and the Ministry of Heavy Industry. This happened to coincide with the decision, based on an order from Moscow, to accelerate the realization of the production and investment plans of the heavy industry sector. The Five-Year Plan of this sector is to be realized in 3 years, and the production capacity of heavy industry is to equal, in 1953, 300 percent of the prewar level. At the same time the central directorate of the Czechoslovak Metalworking and Machine Factories was reorganized; this was a national enterprise comprising about 73 enterprises and some 300,000 workers. This directorate was broken down into four central directorates, for the heavy metalworking industry, precision mechanics industry, electrotechnical industry, and metal consumer goods industry, respectively.

However, by government decree of 7 September 1951, the Ministry of Heavy Industry was broken down into five new ministries: the Ministry of Fuels and Power, the Ministry of Ore Mines and the Metallurgical Industry, the Ministry of the Chemical Industry, the Ministry of Heavy Machine Building, and the Ministry of General Machine Building. At the same time all the central directorates were liquidated.

3. For reasons of political security the secret police, along with the national security forces, were detached from the Ministry of the Interior in 1950 and made into a new ministry. But the budget of the Ministry of the Interior for 1951 covers the expenses of the regional administration of the National Committees as well as of the ordinary police.

It should also be mentioned that in 1951 the secret police, national security organs, and the frontier guards received the legal status of the army as well as army materiel.

4. The pension service for public functionaries was liquidated in 1951 and taken over by the social insurance service. It should be pointed out also that in the new law on the nationalization of industry a new method has been introduced for compensating the former owners of nationalized property. They are now to be included in the social insurance setup. Actually the pension for former employers, to be used when they get too old to work, is the only form of compensation that exists. Of course, this does not concern the young

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people who, like everyone, have to accept the work offered them by the labor offices. The former owners generally work in a special establishment in which the police keeps a strict control.

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Until 1948 the state budgets in Czechoslovakia were deficit budgets, and in 1948 the deficit rose to about 10 billion crowns. By introducing a general sales tax the Communists succeeded in turning this deficit into a surplus in 1949. This new tax resembles the former tax on the volume of trade, but while the former tax was from one to 3 percent, the new taxes are enormous and can be changed by a simple decree of the Ministry of Finance. According to the declaration of the Minister before the parliament in February 1951, the regular distribution of consumers' goods yields the major part of this revenue, while the free market takes only second place.

This tax is the means by which the Communist regime controls prices and the living standard, and by which it masks the exploitation of which the vast masses of the population are victims.

During 1951 there have been two examples of the diabolical use of this tax: In January and February, at the time of the grain supply crisis, and this summer, during the meat supply crisis. In both cases the crisis was caused by enormous consumption and wastage. Although analyses show that the harvests as well as the stocks of plant products were sufficient, in February, bread and flour rationing were reintroduced. It is true that the reintroduction of rationing for bread and other materials, side by side with the free market, permits the government to control the supply situation of the country. But with the conditions in production which obtained at that time it appeared that these measures were primarily in the nature of economic mobilization. Further, there have been several instances of price increases on the free market since February, so that one can see that the Communists in Czechoslovakia have in the sales tax an effective instrument for controlling the living standard and for supplying the country in time of war.

One must not lose sight of the fact, however, that the sales tax is in fact a form of consumption tax from which the revenue is enormous!

In 1949, this tax was estimated in the budget at 46 billion crowns, while the effective return was 70 billion. In 1950, the budget estimate was 70 billion, and the return probably exceeded 80 billion. Finally in 1951, the budget included 106 billion crowns from the sales tax.

It can be seen that the fiscal policy of Czechoslovakia is following the Soviet example. By controlling salaries and prices the government is trying to obtain maximum production, particularly in those sectors in which it is politically interested. Production falls into two categories: production which is necessary for consumption, and production which corresponds to the political aims of the regime. Taking the cost price as a basis for calculations, if the value of these two groups of products is C (consumers' goods) and A (arms), and supposing that the national enterprises realize profits P and pay taxes T to the state, it follows that the sum of salaries distributed for the national economy is  $C + A - P - T$ . But in order to maintain the economy in a state of equilibrium the prices of consumers' goods must be raised so that the sales prices of these products to the consumer will equal the salaries paid out, i.e.,  $C + A - P - T$  [sic]. This is to say that the program of production of goods which serve the political purposes of the regime is realized without disturbing the economic equilibrium since the capital necessary for financing production in the heavy industrial sector and for investments is extracted from the economy

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in the form of the sales tax. Of course, the system leads to a worse and worse slavery to the extent that production of goods for political purposes increases.

To show where this policy of exploitation -- which may be characterized as diabolical, and, for the people who have to carry the burden, as tragic -- can lead, we should like to add some data on the tempo of this policy over a period of time.

The following table gives the 1937, 1949, 1950, and 1951 figures on the Czechoslovak national income, budgetary expenditures, and receipts from the sales tax. For the year 1937 the tax on volume of business is used for purposes of comparison.

In Billions of Present-Day Crowns (in prewar crowns for 1937)

	<u>1937</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
National income	60	240	260	280
Budgetary expenditures	10	89	131	166
As % of national income	16%	37%	50%	60%
Receipts from sales tax	2.8	70	Over 80	106
As % of national income	4.6%	29%	30%	38%

Thus, before the war the Czechoslovak state required 16 percent of the national income. The present Communist regime takes 60 percent of it! Of every 100 crowns which the Czech worker earns at present, 38 crowns represent dead purchasing power, that is, consumer taxes which the worker is obliged to pay on products for his daily consumption -- and not only when he buys them on the free market, but even when he buys on the controlled market! Considering the increasing tempo in the receipts from this sales tax, it is very probable that the worker's dead purchasing power has already exceeded 40 crowns for each 100 crowns which he nominally earns!

It is exclusively because of the sales tax that the Communist regime has been able to realize large surpluses during the last 3 years. According to the closing of the accounts for the fiscal year 1949, presented to the parliament in February 1951, this surplus amounted to 35 billion crowns for the first year of the Communist regime, 24 billion of which represented advances on the sales tax receipts and 11 billion represented planned investment projects which had not been completed during the year. It is significant that these 11 billion, representing projects which had not been completed, were not carried over to the following year with a view to completing the projects during that year, but were simply placed in the Fund of the Nationalized Economy along with the 24-billion surplus from the sales tax receipts. What happened was that, in the meantime, orders had come from Moscow to accelerate construction and to increase production in the sphere of heavy industry -- and so all the projects started during 1949 were left unfinished. For example, the children's hospital in Brno, construction of which was started in 1949, has for 2 years been completely abandoned!

To accelerate the realization of the plans for heavy industry, the Fund of the National Economy was organized in 1950, with a sum of 20 billion crowns provided for it in that year's budget. The 1951 budget provided 43.4 billion crowns for this fund, in addition to the 35 billion budgetary surplus from 1949.

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Under the Five-Year Plan (1949 - 1953) it was planned that investments in industry should reach a total value of 132 billion crowns. A considerable portion of these investments was to be financed from the enterprises' own funds, that is, from the amounts paid in as amortization payments and the profits realized by the enterprises; only the remainder was to be furnished by the state directly. Now, as may be seen, the state's contributions to the Fund of the National Economy have already increased to some 115 billions! If one wishes to account for the total volume of capital thus placed at the disposition of heavy industry's investment activities, it is necessary to add to this figure of 115 billion the total of the amounts paid into this fund as amortization payments, and also the profits realized by the nationalized economy. The total value of amortization payments may be estimated at 30 billion per year; however, it is difficult to make any estimate on the profits. But no serious error in calculation will be made if one assumes that the yield from these two sources probably amounts to a total of about 100 billion for the years 1949 - 1951.

If we wish to obtain an idea of the force with which the leaders in Moscow are exerting pressure on Prague to obtain what they want from the Czechoslovak economy, we need only consider the following data: credits planned under the Five-Year Plan for investment projects in industry as a whole, 132 billion crowns; credits actually made available to heavy industry within 3 years, 215 billion crowns.

If one observes the Communist regime's avid efforts toward increasing productivity by introducing two and three shifts everywhere, contending that there is neither the time nor the necessary financial means for enlarging and modernizing the existing plant or for making the work more pleasant for the worker; if one observes all conceivable means being employed to force women to seek employment, so as to be able in this way to free masculine workers for heavy industry; if one considers the Czechoslovak government's recent decision to send 77,000 white-collar workers from the government administration and from the national enterprises, and 39 percent of the personnel from the central directorates which are now being liquidated, into the workshops to work at manual labor; then one may realize that this is not a question of activities designed to improve the lot of the population but a terrible exploitation of the Czechoslovak economy, organized in conformance with political directives from Moscow by the Communist leaders in Prague, who are in the grip of panic, fear, and mutual hate, but are unable to lift their voices.

This Communist hysteria in Prague certainly constitutes one of the aspects of the danger which the West must pay close attention to. But the reactions which this political, economic, and social exploitation arouses in large groups of the Czechoslovak population may perhaps be even more important. If it should be possible to succeed in sustaining the morale of the Czechoslovak people during this present period of oppression, their value, at the proper moment, for the defense of Atlantic civilization may be immeasurable!

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